



**Statement of Senator Ernest F. Hollings
Hearing on the Future of the Airline Industry
January 9, 2003**

Good Morning. First, let me express my sympathy to the family and friends of the folks that lost their lives in the crash in Charlotte yesterday. We have spent a great deal of time focusing on security over the last 16 months, recognizing that making people safe and secure in their travel is a critical part of what our governmental responsibilities are. Crashes are a devastating experience for the families and loved ones, and I wanted to express my condolences to those folks.

Turning to the economic plight of the airline industry, above all else we must ensure that the industry is safe. We must also work to make certain that it is strong and viable. Right now, the Federal Aviation Administration (FAA) has targeted the two carriers in bankruptcy for greater surveillance. Does the FAA have the resources to fully do its job? I do not yet know the answer to that question, but I know we will look into this matter.

It is clear to all of us that the airlines face perhaps the most difficult period in their history. Analysts indicate that air carriers have collectively lost at least \$15 billion over the past two years with just a few carriers operating in diminished profitability. More than 80,000 good paying jobs have been lost over this same period with up to 30,000 more personnel cuts planned for 2003 as companies restructure their business models in an effort to remain competitive. The aircraft manufacturing sector is faring no better, with more than 600 airplanes having been moved into storage or early retirement, and new orders for Boeing and others continuing to fall off.

After the tragic events of September 11, 2001, Congress acted quickly to provide air carriers access to \$5 billion in direct compensation and \$10 billion in federally guaranteed loans. While this support was a needed "shot in the arm," the airline industry obviously continues to struggle, and many other businesses across the country are facing increasingly difficult times as well. Unlike the airlines, these industries did not get a "bailout" after the terrorist attacks and many companies have not survived as the nation's economic slump has worsened. Yet, again we are here to contemplate what further steps the Federal Government can take to improve the condition of our airlines.

A number of carriers have expressed the need to have their tax, fee, and security burdens lessened. Some airline CEO's have explained that when the airlines were profitable, these costs

could be passed on to customers, but now that the demand is down these costs are absorbed by the airlines. We know the carriers were weakened by 9-11, but some were weak prior to 9-11. Now, the market has radically shifted and the major carriers can not change quickly enough to make a profit. Herb Kelleher and Southwest, and Dave Neeleman and JetBlue, continue to make money as passengers look for lower fares. The major carriers, like American and United, have announced fare reductions in an effort to lower business fares and attract more people to fly. The planes are full – Northwest had a 77 or 78 percent load factor last month, but revenues are down per passenger. I like the lower fares, and the one way walk up even for my Charleston flight has dropped by about \$400. This is good news for the consumer, but the carriers need to reduce costs if they are to survive.

The airlines are calling for Congress to alter the current tax system, but we need the carriers to show us what changes they are going to make to improve their business structure, service and economic viability. The Air Transportation Board was tough on applicants, asking for detailed business plans. They did not give loans to all comers, and in fact turned down United, and gave US Airways conditional approval for \$900 million in loans.

The airlines are also asking Congress to revamp the Railway Labor Act by inserting a mandatory arbitration clause. As I see it, yesterday, United's pilots – and Mr. Woerth from ALPA can provide us details – agreed to cut salaries by 29 percent. The other carriers and their unions will need to follow. The labor-management negotiations seem to be working, so we should not inject ourselves into the process. Management, for its part, has also been making concessions and I am hopeful that future efforts among the airlines will continue to incorporate a similar balance. I should add that I appreciate Mr. Woerth's appearance and want to recognize his efforts following 9-11 to help us pass the Aviation and Transportation Security Act. He helped us push that bill through, and I want to thank him for his efforts.

If the airline market failure leads to an industry collapse the ramifications for our entire economic system are dire. I find it interesting that Congress is being asked to tinker with fees and repeal taxes – the majority of which pay for programs that directly benefit the air carriers – while the Administration is pushing for a major economic stimulus package that provides nothing for our airline industry. Clearly, the industry is too important to our nation's economy not to take action – but what steps will best provide the most dependable and equitable aviation transportation system for the traveling public? These issues must be very carefully considered in light of the airline industry's current market failure. We need to see real fixes with real results, not a system of continual boom and bust that overcharges customers in good times and asks for handouts from them in bad.

This hearing will provide the industry an opportunity to make its case for further support in the form of changes to the current tax and fee structures, but know that you are facing a skeptical audience. I am hopeful that our time here will lay the groundwork for finding workable solutions to lingering troubles in the airline industry which will help to benefit aviation, the entire U.S. economy and the American people for a long time to come.